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Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
EB-08 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04
TRSE-00 LAB-04 SIL-01 OMB-01 AGRE-00 /063 W
----------120540Z 012710 /11
R 111816Z FEB 77
FM USMISSION EC BRUSSELS
TO SECSTATE WASHDC 3005
INFO ALL EC CAPITALS 3120
USMISSION OECD PARIS
USMISSION GENEVA

C O N F I D E N T I A L EC BRUSSELS 01373

NOFORN

E.O. 11652: GDS
TAGS: ENRG, EMIN, ETRD, EEC
SUBJECT: EC COMMISSION STAFF PROPOSAL FOR A WORLDWIDE SYSTEM FOR THE STABILIZATION OF EXPORT EARNINGS

REF: (A) EC BRUSSELS 1263, (B) EC BRUSSELS A-040, (C) EC BRUSSELS 1316

1. SUMMARY: THE EC COMMISSION STAFF IS PROPOSING THE ESTABLISHMENT OF A WORLDWIDE SYSTEM TO STABILIZE THE EXPORT EARNINGS (STABEX) OF LDC'S. THIS SYTEM WOULD COMPLEMENT, NOT SUBSTITUTE FOR, A POSSIBLE COMMON FUND FOR COMMODITIES. COMMISSION OFFICIALS SAY, HOWEVER, A STABEX COULD DEFLECT G-77 DEMANDS FOF A COMMON FUND AND HELP MITIGATE LDC CHARGES THAT THE INDUSTRIALIZED COUNTRIES DO NOT WANT TO ASSIST WITH LDC COMMODITY PROBLEMS. THE COMMISSION HAS NOT YET CONSIDERED THIS PROPOSAL, BUT SEVERAL KEY COMMISSIONERS SUPPORT IT. END SUMMARY.

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2. THE COMMISSION STAFF HAS PREPARED AN ANALYSIS OF THE FEASIBILITY OF ESTABLISHING A WORLDWIDE STABEX SYSTEM. (ON A CONFIDENTIAL BASIS WE HAVE OBTAINED A COPY OF THIS ANALYSIS; WE ARE SENDING A COPY TO STATE/EUR/RPE - MCLEAN AND EB/OIC - BOERNER.) THIS MESSAGE SUMMARIZES THIS ANALYSIS AND REPORTS ON STAFF COMMENTS. THESE OFFICIALS CAUTION THAT THE COMMISSION

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HAS NOT ADOPTED THIS PROPOSAL; IT ONLY REFLECTS PRELIMINARY STAFF THINKING. SEVERAL KEY COMMISSIONERS, HOWEVER, REPORTEDLY SUPPORT THE IDEA. SHOULD THE COMMISSION APPROVE THE PROPOSAL, COMMISSION OFFICIALS DO NOT KNOW WHEN IT MIGHT BE SUBMITTED TO MEMBER STATES. OUR SOURCES SPECULATE THAT THE EC MIGHT SUGGEST STABEX AS PART OF A FINAL PACKAGE TO BREAK A POSSIBLE DEADLOCK AT THE FORTHCOMING GENEVA UNCTAD NEGOTIATIONS ON A COMMON FUND.

3. COMMISSION OFFICIALS ARGUE THAT STABEX HAS MAJOR ADVANTAGES OVER THE UNCTAD PROPOSED COMMON FUND: 1) IT WOULD NOT INTERVENE IN THE MARKET MECHANISM; 2) IT MAKE ECONOMIC SENSE; BY STABILIZING LDC EXPORT EARNINGS, IT ASSISTS LDC DEVELOPMENT EFFORTS; AND 3) EC EXPERIENCE DEMONSTRATES THAT ADMINISTRATIVE COSTS ARE MINIMAL; FOUR OFFICIALS OPERATE THE EC SYSTEM.

4. COMMISSION STAFF ESTIMATES CALL FOR A STABEX COSTING ABOUT $1.8 BILLION OVER FIVE YEARS AND COVERING ALL THE COMMODITIES WITHIN THE LOME CONVENTION STABEX (EXCEPT IRON ORE): PEANUTS, COCOA, COFFE, COTTON, COCONUTS, PALM NUTS, HIDES, WOOD, BANANAS, TEA AND SISAL -- PLUS PERHAPS RUBBER AND JUTE. THIS LIST, HOWEVER, MIGHT BE VARIED AMONG DONORS. STABEX WOULD APPLY TO LDC EXPORT EARNINGS FROM THESE PRODUCTS DURING THE YEAR PRECEDING THE YEAR OF A REQUEST FOR A TRANSFER. TO QUALIFY, EXPORT EARNINGS FROM EACH PRODUCT AS A PER-
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CENTAGE OF TOTAL EARNINGS FROM MERCHANDISE EXPORTS MUST REACH A CERTAIN THRESHHOLD. THIS THRESHHOLD WOULD VARY ACCORDING TO PER CAPITA EXPORT EARNINGS: 2.5 PERCENT, FOR THE LEAST DEVELOPED; 7.5 PERCENT, MEDIUM-RANGE LDC'S; AND 22.5 PERCENT, MOST DEVELOPED LDC'S. TRANSFERS WOULD GENERALLY BE REPAYABLE WITHIN FIVE YEARS.

5. THE COST WOULD BE EQUITABLY DISTRIBUTED AMONG MAJOR DONORS, I.E. THE EC, 42 PERCENT; US, 40 PERCENT; JAPAN, 10 PERCENT; AND OTHER DAC COUNTRIES, 8 PERCENT. THE ESTIMATED ANNUAL COST TO THE EC WOULD BE $125 MILLION; HOWEVER, THE EC IS ALREADY PROVIDING STABEX TRANSFERS TO 49 AFRICAN, CARIBBEAN AND PACIFIC COUNTRIES (ACP AMOUNTING TO ABOUT $75 MILLION A YEAR (SEE REF B). THE EC NET ADDITIONAL COST WOULD ONLY BE $50 MILLION ANNUALLY. THE ESTIMATED COST TO THE UNITED STATES WOULD BE ABOUT $115 MILLION A YEAR OR A TOTAL OF $550-$600 MILLION OVER FIVE YEARS.

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6. POSSIBLE ADMINISTRATIVE DIFFICULTIES OF AN INTERNATIONAL STABEX MIGHT BE A MAJOR DRAWBACK. THE COMMISSION STAFF IS AFRAID THAT AN INTERNATIONAL ORGANIZATION WOULD BECOME TOO POLITICIZED AND WOULD BE UNABLE TO MAKE TIMELY TRANSFERS. TO AVOID THESE PITFALLS, THE STAFF SUGGESTS AN ORGANIZATIONAL FRAME-WORK SOMEWHAT LIKE THE CURRENT GSP ARRANGMENTS. GENERAL PRINCIPLES FOR THE OPERATION OF STABEX WOULD BE DRAWN UP, BUT EACH DONOR WOULD HAVE ITS OWN SYSTEM AND TAILOR THE LIST OF PRODUCTS TO MEET ITS OWN NEEDS. THE EC, FOR EXAMPLE, WOULD NOT INCLUDE PRODUCTS COVERED BY THE CAP SUCH AS CEREALS, CITRUS, MEAT, AND DAIRY PRODUCTS, BUT OTHER DONORS MIGHT DECIDE TO INCLUDE SUCH PRODUCTS. THERE MIGHT BE AN ANNUAL MEETING TO REVIEW EACH DONOR'S PROGRAM AND THE OPERATIONAL GUIDELINES.
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7. THE STAFF PAPER ADVOCATES THIS PROPOSAL FOR THE FOLLOWING REASONS: (1) THE NINE WILL LIKELY SUPPORT IT; (2) IT WOULD ENABLE THE EC TO TAKE AN INITIATIVE IN CIEC; (3) THE ADDITIONAL COST FOR THE EC IS NOT LARGE; (4) STABEX COULD BE INTEGRATED INTO THE FINANCING OF BUFFER STOCKS FOR INDIVIDUAL COMMODITY AGREEMENTS; AND (5) IT DOES NOT OVERLAP WITH IMF COMMODITY FINANC-ING, BECAUSE IT IS GEARED TO EARNINGS FROM INDIVIDAUL COMMODITIES, NOT THE OVERALL BALANCE OF PAYMENTS POSITION. THE PAPER ADDS THAT THE EC SHOULD AVOID INCLUDING MINERAL PRODUCTS WITHIN STABEX BECAUSE THESE PRICES CAN BE TOO EASILY MANIPULATED.

8. COMMENT: COUNCIL SECERTARIAT OFFICIALS TELL US THAT MEMBER STATE EXPERTS WHO WERE CONSIDERING POSSIBLE NEW CIEC INITIATIVES LAST NOVEMBER GENERALLY FAVORED THE STABEX PROPOSAL. THUS, THESE OFFICIALS ALSO BELIEVE THAT THE NINE MIGHT SUPPORT IT. AS INDICATED IN PARA 6, REF C, NOT ALL COMMISSION OFFICIALS AGREE WITH THE PAPER'S ASSERTION THAT STABEX WOULD NOT OVERLAP WITH IMF FINANCING. END COMMENT.

9. THE PAPER RECOGNIZES THAT THIS PROPOSAL ALSO HAS CERTAIN RISKS. IT MIGHT COMPLEMENT THE PROPOSED COMMON FUND, BUT FALLS FAR SHORT OF LDC DEMANDS. CONSEQUENTLY, THE G-77 MIGHT REJECT IT. IN ADDITION, THE PROPOSAL WOULD LIKELY COMPLICATE FORTHCOMING EC NEGOTIATIONS WITH THE ACP'S TO DRAW UP A SECOND LOME CONVENTION. THE ACP'S WOULD WANT TO INCORPORATE ANY NEW ELEMENTS, SUCH AS ADDITIONAL PRODUCTS, INTO THE EXISTING EC/ACP STABEX. HINTON

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